Carbon pricing in Alberta: The new Technology Innovation and Emissions Reduction (TIER) system

December 9, 2019

In brief

Alberta recently introduced a revised cap and trade system, the Technology Innovation and Emissions Reduction (TIER) — which has now been approved by the federal government. The TIER will be mandatory starting January 1, 2020, for emitters whose greenhouse gas (GHG) emissions exceed the 100 kilotonne CO2e annual threshold. The TIER will also include an “opt-in” provision for taxpayers who emit certain pre-determined minimum thresholds and/or face competitive and trade-exposed circumstances.

The province’s previous carbon pricing program, the Carbon Competitiveness Incentive Regulation (CCIR), which had met federal carbon pricing standards, was repealed by Alberta’s new government effective May 30, 2019. Because the CCIR was repealed and Alberta no longer met federal carbon pricing standards, the federal government announced in June 2019 that the federal backstop program would begin to apply in Alberta on January 1, 2020.

On December 6, 2019, the federal government announced that it has accepted that the large industrial facility portion of Alberta’s TIER system meets the federal carbon pricing standard. However, the federal carbon levy imposed on fossil fuels will still apply for emitters that are not part of the TIER industrial facility program (either by requirement or by “opting in” to the system).

The above changes add complexity to the management of both emissions reporting and carbon cost, due to the interaction between the federal fuel levy (which will apply) and Alberta’s TIER system for heavy emitters (which allows for an exemption from the federal fuel levy).

In detail

Background

To advance the objectives of the Pan-Canadian Framework on Clean Growth and Climate Change and reduce GHG emissions, the Canadian government passed the Greenhouse Gas Pollution Pricing Act (the backstop program) in June 2018.

Within this context, the federal government requires all provinces and territories to adopt a form of carbon pricing and has established a Federal Carbon Pricing Backstop program for provinces and territories that either do not have their own carbon tax program or whose provincial or territorial program does not meet federal standards. The intention is for carbon pricing to apply to a broad set of emissions in every Canadian jurisdiction to help achieve Canada’s benchmark goals for national GHG reductions.
Federal carbon levy

The federal carbon levy applies to fuels that are used in the backstop jurisdictions, which are currently Manitoba, New Brunswick, Ontario and Saskatchewan (since April 1, 2019), Nunavut and the Yukon (since July 1, 2019), and Alberta, starting January 1, 2020.

See the Appendix for the federal carbon levy rates under the Greenhouse Gas Pollution Pricing Act.

Registration requirements

Certain types of businesses, including fuel producers, fuel distributors, fuel importers and certain fuel users, will either be required to register or may voluntarily register with the Canada Revenue Agency (CRA) for the federal carbon levy and pay the applicable levy, as follows:

- Registered fuel distributors – A person who produces a type of fuel in a backstop jurisdiction must register as a registered distributor in respect of that fuel. A person that sells fuel in a backstop jurisdiction to resellers, registered distributors, registered specified air, marine or rail carriers, registered emitters, registered users or farmers/fishers for use in farming/fishing operations can voluntarily register as a registered distributor.
- Registered fuel importers – Any person that imports fuel into a backstop jurisdiction from outside Canada or from another place in Canada is required to register, except for a person that imports or brings into a backstop jurisdiction from another place in Canada 200 litres or less of gasoline, kerosene, light fuel oil or propane.
- Registered fuel users – Certain businesses that use fuel will be required to register, including:
  - commercial carriers (operators of transport trucks, rail transportation, or marine transportation, and air carriers) that operate in a backstop jurisdiction and at least one other Canadian jurisdiction
  - industrial facilities that are covered under TIER (but see “Registering for an exemption from the federal fuel levy” on page 3)
  - businesses that burn waste in a backstop jurisdiction
- Businesses that use fuel as a raw material, diluent or solvent in a manufacturing or petrochemical process in a manner that does not produce heat or energy

Federal carbon levy relief

Relief from the federal carbon levy will be provided for certain circumstances, including:

- facilities that are covered or have opted in to the TIER
- diesel and gasoline used by farmers in certain activities
- exports of fuel from a backstop jurisdiction
- fuel that was used as a raw material, diluent or solvent in a manufacturing or petrochemical process in a manner that does not produce heat or energy

Reporting requirements

Registered entities will be required to:

- calculate the federal carbon levy payable in each jurisdiction
- report and file monthly or quarterly returns with the CRA, depending on the type of registration held

Technology Innovation and Emissions Reduction (TIER) system

Registration requirements

Industrial facilities (certain exceptions apply) that emit 100 kilotonnes or more of CO2e per year are required to register for the TIER. Businesses subject to the TIER (or those who successfully opt-in voluntarily under the opt-in provisions) will be required to apply a carbon pollution price to the emissions that exceed emissions intensity performance standards that are set for the relevant type of activity.

Although not required, facilities that emit less than 100 (but more than 10) kilotonnes of CO2e per year will be able to opt in to the TIER, thereby allowing competitors, with varying emissions outputs (i.e. small to large emitters), to be treated similarly.

To comply with annual TIER reporting requirements, a business will first need to determine its emission levels in light of the performance standards. If a business’s emissions:
• are less than its permitted limits, it will receive surplus credits
• exceed its permitted limits, it will have to satisfy compliance obligations using various legislative options, including Alberta-based offsets

Federal government approval

Now that the federal government has determined that the TIER meets its requirements, the federal government needs to create a process to ensure that TIER facilities do not also pay the federal fuel levy. This process is expected to be similar to those implemented in other provinces where similar outcomes were achieved.

Registering for an exemption from the federal fuel levy

Alberta’s TIER facilities can now apply to Environment and Climate Change Canada and the CRA to register as an emitter, enabling them to obtain fuel without having the federal carbon levy apply.

Registering as an emitter with the CRA will allow those facilities to obtain an exemption certificate, which can then be provided to fuel supplier(s). This will allow deliveries of fuel to be made to the facility without applying the federal fuel charge at the time of delivery, if the fuel is for use at the facility, or any of the individual facilities of an aggregated facility, subject to certain conditions.

As the federal fuel levy will apply to facilities that are not registered under the TIER, any facility or aggregated facilities eligible to opt in to the TIER that does not opt in by the January 1, 2020 (implementation date) will pay the federal fuel levy, even if they subsequently choose to opt in for the 2020 year (the deadline to opt in for the 2020 calendar year is September 1, 2020). Any federal levy paid will not be recoverable in this situation. As a result, facilities that intend to opt in to the TIER should do so before January 1, 2020.

Additional information

Alberta Environment and Parks (AEP) has sent an e-mail with further instructions to each certifying official and reporter for each regulated facility. If you have not received this e-mail, please contact AEP at aep.ghg@gov.ab.ca.

Additional information will be available on Alberta’s website: www.alberta.ca/technology-innovation-and-emissions-reduction-regulation.aspx.

How can PwC help

We can help:

• identify the optimal registration requirements for your business under the backstop and the TIER programs, including determining other compliance registration and reporting requirements
• review the required calculations under the federal carbon levy or the TIER
• determine the best planning or operational option for your business (e.g. opt in to the TIER or pay the federal carbon levy)
• perform verification services for benchmark applications and reporting under the TIER

Let’s talk

For advice on how the federal carbon levy affects you and your business, and your obligations under the TIER program, please contact your PwC adviser or:

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## Appendix

### Carbon levy rates under the *Greenhouse Gas Pollution Pricing Act*

<table>
<thead>
<tr>
<th>Fuel type</th>
<th>Unit</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>April 1, 2019 to March 31, 2020</td>
<td>April 1, 2020 to March 31, 2021</td>
</tr>
<tr>
<td>Aviation gasoline(^1)</td>
<td>$/litre</td>
<td>0.0498</td>
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<tr>
<td>Aviation turbo fuel(^1)</td>
<td>$/litre</td>
<td>0.0516</td>
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<tr>
<td>Butane</td>
<td>$/litre</td>
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<td>Ethane</td>
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<td>Gas liquids</td>
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<td>Gasoline</td>
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<td>Heavy fuel oil</td>
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<td>Kerosene</td>
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<td>Light fuel oil</td>
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<tr>
<td>Methanol</td>
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<td>Naphtha</td>
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<td>Petroleum coke</td>
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<tr>
<td>Pentanes plus</td>
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<td>Propane</td>
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<tr>
<td>Coke oven gas</td>
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<td>Marketable natural gas</td>
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<tr>
<td>Non-marketable natural gas</td>
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<td>Still gas</td>
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<td>Coke</td>
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<td>High heat value coal</td>
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<tr>
<td>Low heat value coal</td>
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<tr>
<td>Combustible waste</td>
<td>$/tonne</td>
<td>39.95</td>
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</table>

1. In Nunavut and the Yukon, the federal carbon levy does not apply to aviation gasoline and aviation turbo fuel.